

## Message Text

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21

ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 DODE-00 PM-03 H-02 L-02 PA-02 PRS-01 USIA-15

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P 030840Z FEB 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 7754

INFO USMISSION OECD PARIS

UNCLAS TOKYO 1412

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: GOJ CONSIDERING ANTI-RECESSION MESURE

1. SUMMARY: MINISTERIAL COUNCIL FOR ECONOMIC POLICY (CEP) ON FEB 1 (ITS FIRST MEETING IN 1975) AGREED THAT SOME ANTI-RECESSION MEASURES ARE NEEDED TOHELP JAPAN'S FALTERING ECONOMY; CEP WILL STUDY FIVE STEPS PROPOSED BY MITI MIN KOMOTO FOR CONSIDERATION AT ITS NEXT MEETING. COUNCIL ALSO AGREED TO SEEK FURTHER EFFORTS BY BUSINESS TO STEM FUTURE PRICE/WAGE INCREASES. END SUMMARY.

2. MITI MIN KOMOTO BRIEFED CEP ON GRAVITY OF CURRENT ECONOMIC SITUATION AND REPORTEDLY URGED COUNCIL TO ADOPT MEASURES TO REVIVE BUSINESS. NO DOUBT HE MENTIONED 3.5 PERCENT DROP IN INDUSTRIAL PRODUCTION AND FACTORY SHIPMENTS DURING DECEMBER (SEE TOKYO 1206) AND SEPT-DEC PRODUCTION DROP AMOUNTING TO 6.7 PERCENT (EQUIVALENT TO CUMULATIVE ANNUAL RATE OF 29.6 PERCENT), THAT STOCKS OF UNSOLD GOODS KEEP UNCLASSIFIED

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RISING (INDEX OF FINISHED INVENTORIES IN DEC UP 44 PERCENT

OVE THE YEAR) ; AND THAT DEPARTMENT STORE SALES AT YEAR-END AFTER CORRECTING FOR INFLATION WERE BELOW LAST YEAR. BUSINESS GROUPS, INCLUDING POWERFUL KEIDANREN, CITE DECLINING ORDERS, INCLUDING EXPORTS, AS FURTHER EVIDENCE THAT BUSINESS SITUATION DETERIORATING, NOT JUST STAGNATING. ALREADY THEY PREDICT RECENT GOJ ECONOMIC OUTLOOK WILL NOT BE REALIZED AND FOR CURRENT JFY 74 SOME ANTICIPATE DECLINE IN REAL GNP OF 3 PERCENT PRATHER THAN 1.7 PERCENT FORECAST BY GOJ (TOKYO 16369 12/17/74).

3. MEASURES PROPOSED BY MITI MIN KOMOTO, SOME OF WHICH BUSINESS GROUPS ARE ADVOCATING, ARE AS FOLLOWS:  
(A) INCREASE CREDIT TO SMALL BUSINESSES BY THREE GOJ SPECIALIZED FINANCIAL INSTITUTIONS AS WELL AS BY COMMERCIAL BANKS; (B) INCREASE CREDIT TO RECESSION-HIT INDUSTRIES ALLOWING THEM TO FINANCE UNSOLD INVENTORIES SO AS TO FORESTALL FURTHER PRODUCTION CUTS; (C) INCREASE CREDIT TO HOUSING SECTOR, NOT ONLY TO PUBLIC HOUSING CORPORATIONS BUT ALSO TO FINANCE MORE PRIVATE HOUSING CONSTRUCTION; (D) PROVIDE DIRECT GOVERNMENT LOANS TO ASSIST INDUSTRIES PRODUCING ANTI-POLLUTION EQUIPMENT; AND (E) TAKE "MORE FLEXIBLE" POLICIES IN FISCAL SPENDING, A CODE WORD FOR QUICKLY INCREASING THE OUTLAYS FOR PUBLIC WORKS. THE CEP REACHED A BASIC UNDERSTANDING THAT SOME ANTI-RECESSION MEASURES ALONG THE LINES PROPOSED BY KOMOTO ARE NECESSARY. THE COUNCIL WILL HAVE KOMOTO'S PROPOSALS REVIEWED BY THE MINISTRIES CONCERNED AND INTENDS TO FINALIZE A PLAN AT ITS NEXT MEETING, PERHAPS LATE THIS WEEK.

4. AS PART OF ITS ANTI-INFLATION POLICIES, THE CEP DECIDED TO MAKE DIRECT REQUESTS OF CORPORATIONS TO  
(A) REFRAIN FROM INCREASING PRICES OF THEIR PRODUCTS AND SERVICES, (B) CONTINUE EFFORTS TO TRIM EXPENSES, AND (C) USE MODERATION IN INCREASING WAGES AND DECLARING DIVIDENDS.

5. COMMENT: GOJ HAD HOPED TO MAINTAIN STRONG ANTI-INFLATIONARY POLICIES UNTIL ANNUAL ROUND OF WAGE NEGOTIATIONS HAD BEEN COMPLETED. SITUATION OF RISING UNEMPLOYMENT, INVENTORY OVERHANG, AND CORPORATE FIN-  
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ANCIAL PROBLEMS WERE CONSIDERED HELPFUL IN MINIMIZING PROSPECTIVE WAGE SETTLEMENT. HOWEVER, THE ECONOMIC SITUATION HAS DETERIORATED AT FASTER PACE THAN HAD BEEN ANTICIPATED (AVERAGE QUARTERLY DECLINES IN SEASONALLY ADJUSTED INDUSTRIAL PRODUCTION IN 1974 WERE AS FOLLOWS IN PERCENT: I-2.1 II-2.1 III-3.7 IV-4.9). EVEN LARGE YEAR-END BONUSES WHICH BOOSTED REAL WAGES FAILED TO REVIVE LACKLUSTER CONSUMER SPENDING (WHICH ACCOUNTS FOR

OVER HALF OF DOMESTIC DEMAND). SOME CHANGE IN POLICIES  
IN THE NEXT FEW WEEKS NEED NOT BE INCONSISTENT WITH  
PRIME OBJECTIVE OF FURTHER REDUCTION IN RATE OF  
INFLATION, BUT IT WOULD HAVE VIRTUE OF PREVENTING POSSIBLE  
SERIOUS DETERIORATIONIN AN ALREADY WEAKENED ECONOMY.  
PROPOSECT OF ACHIEVING GOJ INTERIM ANTI-INFLATION TARGET  
OF HOLDKNG RISE IN CPI TONO MORE THAN 15 PERCENT MARCH  
OVER MARCH NOW SEEMS ASSURED WITH RELEASE OF TOKYO CPI  
FOR JAN SHOWING ONLY 0.2 PERCENT MONTHLY RISE.  
HODGSON

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